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April 17, 2000

BY HAND
Magalie Roman Salas, Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, S.W.
Washington, D.C. 20554

Re: Access Charge Reform, CC Docket No. 96-262; Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1; Low Volume Long Distance Users, CC Docket No. 99-249: Reply Comments on the Coalition for Affordable Local and Long Distance Services (CALLS) Modified Proposal, DA 00-533, of the Independent Telephone and Telecommunications Alliance (ITTA)

Dear Ms. Salas:

Enclosed please find an original and 10 copies of the Comments of the Independent Telephone and Telecommunications Alliance (ITTA) in the above-referenced proceeding.

Please stamp and return to me the copy enclosed for that purpose. If you have any questions regarding this matter, please call me at (202) 637-2225.

Sincerely,

Richard Cameron

Richard R. Cameron

cc: Wanda Harris, Competitive Pricing Division (3 copies)

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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OFFICE OF THE SECRETARY

In the Matters of:	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Low Volume Long Distance Users	)	CC Docket No. 99-249
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	

REPLY COMMENTS OF THE INDEPENDENT TELEPHONE AND TELECOMMUNICATIONS ALLIANCE

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April 17, 2000

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Federal-State Joint Board on Universal Service	)	**CC Docket No. 96-45**

REPLY COMMENTS OF THE INDEPENDENT TELEPHONE AND TELECOMMUNICATIONS ALLIANCE

I. INTRODUCTION AND BACKGROUND

The Independent Telephone and Telecommunications Alliance (ITTA) hereby submits these reply comments in response to the Commission's Public Notice seeking comment on the revised access charge, universal service, and price cap reform proposal of the Coalition for Affordable Local and Long Distance Service (CALLS Plan), [1] released March 8, 2000 (Public Notice).[2] In the Notice, the Commission seeks comment on the modifications CALLS filed with the Commission in response to concerns raised in the record to this point.

ITTA supports the CALLS Plan generally, but concurs with the comments offered by Citizens Utilities Company (Citizens), Cincinnati Bell Telephone Company and Broadwing Communications Inc. (Broadwing), Valor Telecommunications Southwest, LLC (Valor), and

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1 ITTA uses the term "CALLS Plan" in these comments to refer to the CALLS proposal as currently amended.

2 *Access Charge Reform*, CC Docket No. 96-262, *et. al.*, Public Notice, Coalition for Affordable Local and Long Distance Services (CALLS) Modified Proposal, DA 00-533 (rel. March 8, 2000).

Global Crossing North America, Inc. (Global Crossing), which demonstrate that the CALLS Plan should include a more reasonable X-Factor and a higher switched access target rate level for elective price cap local exchange carriers that are not now members of the CALLS coalition (midsize price cap LECs).[3] While some commenters broadly urge the Commission to adopt the CALLS Plan as presented, no commenter specifically challenges the fundamental economic differences that separate the CALLS members from other smaller, price cap LECs.

ITTA is an organization of midsize incumbent LECs each serving less than two percent of the nation's access lines. ITTA members collectively serve over six million access lines in 40 states and offer a diversified range of services to their customers. ITTA's smallest member company serves fewer than 100,000 access lines, while its largest serves just over two million. While most ITTA members are regulated under rate-of-return regulation in their provision of interstate services, some, such as Valor, Citizens, and Broadwing, have elected price cap regulation under the Commission's rules. As competition develops, and in light of the Commission's ongoing reform of its price cap rate structure, additional ITTA members are considering the benefits of price cap regulation.

ITTA supports large sections of the CALLS Plan, and believes that it offers solutions to many of the most thorny issues facing both the Commission and carriers today. However, as discussed by Broadwing, Citizens, Valor, and Global Crossing, the Commission should modify the CALLS Plan to make it a viable regulatory option for *all* of the nation's price cap carriers. Numerous economic studies conducted over the past decade have shown that the midsize price cap LECs cannot sustain the same level of productivity growth that is possible for the nation's largest, mandatory price cap LECs. In addition, they face higher traffic sensitive costs than these larger carriers because they lack the ability to achieve the economies of scale and scope that are possible for carriers that serve tens of millions of lines each.[4]

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[3] In this pleading, ITTA will use the term "midsize price cap LEC" to mean those price cap LECs that serve, in the aggregate, fewer than two percent of the nation's access lines. *See* 47 U.S.C. § 251(f).

[4] *See Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94-1, *et. al.*, Comments of the Independent Telephone and Telecommunications Alliance (filed January 7, 2000), and appendices thereto (ITTA X-Factor Comments).

II. The CALLS Plan Promises Real Benefits for Price Cap Carriers and Their Customers

With the modification to the X-factor, and a higher target for traffic sensitive switched access rate, as discussed below, ITTA supports adoption of the CALLS Plan as a critically-needed step in the Commission's efforts to preserve universal service, encourage broadband deployment, and harmonize the interstate access charge system with competition now developing in local telecommunications markets.

As competition develops, the areas the midsize price cap LECs serve – rural and smaller metropolitan America – are those most at risk as implicit support flows inherent in present interstate access charges erode. The consumer benefits of the CALLS Plan are clear. Overall rates for most consumers will fall under the reforms proposed by the CALLS, through the elimination of the PICC, and expanded Lifeline support for the lowest-income subscribers. In addition, by significantly lowering traffic-sensitive access charges, and converting to flat rates some ILEC cost recovery that is currently traffic sensitive, the CALLS Plan narrows the current disparity between the treatment of Internet Service Providers (ISPs) and IXCs under the interstate access charge rate structure. As packet-switched services increasingly supplant circuit switched services and this disparity threatens to destabilize the recovery of interstate-allocated costs, pressure on the Commission to eliminate or modify the ISP access charge exemption will only grow. The CALLS Plan represents an opportunity for the Commission substantially to address these issues while the effects of the ISP exemption are still manageable. Above all, rapidly-evolving telecommunications markets demand a measure of regulatory stability and certainty to permit carriers to make proper investment and business decisions.

III. THE COMMISSION SHOULD ADOPT A HIGHER TARGET RATE, APPLICABLE TO MIDSIZE PRICE CAP LECS THAT ELECT TO PARTICIPATE IN THE CALLS PLAN.

Precisely because of the consumer and carrier benefits the CALLS Plan offers, the Commission should adopt the modifications to the target traffic sensitive switched access rate levels applicable to midsize price cap LECs that adopt the CALLS Plan, in order to make the plan a more viable option for *all* price cap LECs and encourage the widest-possible carrier participation in the CALLS Plan.

The fundamental goals of the CALLS Plan are to convert support implicit in interstate access charges to explicit support and thereby to move toward cost-based interstate access rates. The members of CALLS themselves have already taken initial steps to recognize the differences in traffic-sensitive costs between the largest price cap LECs and other carriers by adopting a multi-tiered mechanism that is designed to achieve traffic sensitive switched access rates of $0.0055 per minute for the Bell Operating Companies (BOCs) and GTE, $0.0065 for other participants, and $0.0095 for the most rural price cap LECs that have line densities of fewer than 20 lines per square mile.[5] Sprint is the only member of CALLS eligible to use the $0.0065 target rate. If they were to participate in the CALLS Plan, Valor and Citizens would be eligible to use the $0.0095 target rate, while other midsize price cap companies, like the much larger Sprint, may still need to achieve a $0.0065 per minute traffic sensitive switched access rate.

ITTA welcomes the recent steps CALLS has taken to accommodate the needs of some midsize price cap LECs, and encourages the Commission to make the $0.0095 target rate applicable to all midsize price cap LECs. Consistent with the goals of the CALLS Plan, the

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[5] The $0.0095 rate was added to the CALLS Plan in a joint *ex parte* letter filed April 14, 2000, by Valor and CALLS. *See Access Charge Reform*, CC Docket No. 96-262, *et. al.*, *Ex Parte* Letter from John Nakahata to Magalie Roman Salas, filed April 14, 2000.

Commission should adopt the separate and higher target rate for midsize price cap LECs that the CALLS and Valor have proposed. The network characteristics and architecture of the other elective price cap LECs are fundamentally different from those of the CALLS members, including Sprint. As Valor explains in its comments, midsize price cap LECs in general have fewer customers over which to distribute local exchange costs than the mandatory price cap LECs and Sprint. Valor and Citizens in particular have only about 20 percent of the line density that Sprint has in its exchanges, and less than five percent of the line density of the BOCs.[6] Given that the Commission itself has questioned the proposition that costs of local switching are driven primarily by aggregate minutes of use,[7] it is to be expected that smaller price cap LECs would have great difficulty in achieving the same per minute-of-use target rate as the larger CALLS participants. For this reason alone, the Commission should modify the CALLS Plan to provide a more realistic target rate for midsize price cap LECs.

In addition, the $0.0065 target rate is not based on actual cost studies done by or for midsize price cap LECs. As Citizens describes, its *forward-looking* price for the network elements contained in the traffic-sensitive target rate is between $0.0095 and $0.011211 per minute, roughly 50 percent higher than the CALLS target rate.[8] Accordingly, the adoption of a target rate of $0.0065 applicable to all non-mandatory price cap LECs would run counter to the Commission's own longstanding goal to achieve cost-based interstate access rates – a goal the CALLS members themselves support.[9]

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6 Valor Comments at 3, Table 1.

7 *Access Charge Reform*, CC Docket No. 96-262, Fifth Report and Order and Further Notice of Proposed Rulemaking, FCC 99-206 (rel. Aug. 27, 1999), at paras. 211-216.

8 Citizens Comments at 5.

9 *See, e.g., Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94-1, *et. al.*, Coalition for Affordable Local and Long Distance Service, Memorandum in Support of the Coalition for Affordable Local and Long Distance Service Plan (filed Aug. 20, 1999), at 35.

IV. THE COMMISSION SHOULD CREATE A SEPARATE AND HIGHER X-FACTOR, APPLICABLE TO MIDSIZE PRICE CAP LECS THAT ELECT TO PARTICIPATE IN THE CALLS PLAN.

In comments filed in response to the Commission's Notice of Proposed Rulemaking on the remand by the United States Court of Appeals for the District of Columbia Circuit (Court) of the Commission's *Fourth Report and Order* establishing an effective X-factor of 6.5 percent,[10] ITTA urged the Commission to adopt a separate and lower X-Factor applicable to the elective price cap LECs.[11] Specifically, in those comments, ITTA urged the Commission to recognize on remand that midsize carriers that have elected price caps cannot achieve the same level of productivity gains that are possible for larger carriers.

For largely the same reasons, ITTA believes that the CALLS Plan should include a separate and lower X-Factor applicable to midsize price cap LECs. Since 1991, at least three economic studies have demonstrated that midsize carriers' year-over-year productivity gains trail those of the BOCs and GTE by between 1.0 and 3.1 percentage points.[12] The studies show that elective price cap LECs, such as Cincinnati Bell, that already enjoy relatively uniform low unit costs of providing service, and those such as Citizens that are part of relatively small holding companies cannot achieve the same productivity growth as the larger, mandatory price cap LECs. The mandatory price cap carriers, in sharp contrast to the elective price cap LECs, serve much larger areas with more diverse cost characteristics and, accordingly, can take substantially greater advantage of economies of scale and scope.

The Commission has never considered these studies on substantive grounds. In 1990, the last time the Commission addressed the merits of midsize LEC cost studies in any

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[10] *Price Cap Performance Review for Local Exchange Carriers*, Fourth Report and Order in CC Docket No. 94-1 and Second Report and Order in CC Docket No, 96-262, 12 FCC Rcd 16642 (1997) (*Fourth Report and Order*), *rev'd and remanded sub nom. United States Tel. Ass'n v. FCC*, 188 F.3d 521 (D.C. Cir. 1999). The Commission adopted a productivity measurement of 6.0 percent and a 0.5 percent consumer productivity dividend. As used in this pleading, the term "X-factor" refers to this composite 6.5 percent annual adjustment factor.

[11] ITTA X-Factor Comments.

detail, it found that the studies were "useful indicators of mid-size LEC productivity," but nevertheless held that midsize LECs were "too diverse in terms of geography, business organization, historical growth rate, customer and resource base, and much else," to extrapolate from the individual company studies then available to the group of independent LECs as a whole.[13] Today, a total of four studies performed at intervals over the past three years, uniformly show that the midsize price cap LECs experience year-over-year productivity growth that is demonstrably lower than that of the largest price cap LECs.[14] These studies, taken as a whole, show that *all* midsize price cap LECs, despite differences in the character of their operating territories and businesses, experience year-over-year productivity growth 1.0 to 3.1 percentage points below that of larger carriers. While the results among the companies may vary, the existence of a quantifiable differential between midsize price cap LECs and the larger carriers has been consistently demonstrated in all the reports in the record.

The impact on the CALLS Plan of establishing a separate and lower X-factor applicable to midsize price cap LECs would be minimal, and would reflect real economic differences that separate these companies from the larger CALLS members. These economic differences in productivity gains apply whether or not the Commission establishes a final target level for traffic-sensitive rates as part of the CALLS Plan. The X-Factor in either case will be used to establish a glidepath for rates that must reflect actual carrier ability to increase efficiency. Put simply, midsize price cap LECs cannot achieve the target rate established by the CALLS Plan as quickly as the CALLS members. The Commission should therefore establish a separate

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[12] *See* ITTA Price Cap Comments at Exhibits A, B, and C.

[13] *Policy and Rules Concerning Rates for Dominant Carriers*, Second Report and Order, 5 FCC Rcd 6786, 6799 (1990) (subsequent history omitted).

[14] In addition to the three studies attached to the ITTA Price Cap Comments, it is ITTA's understanding that a further study performed on behalf of Global Crossing, and filed today as part of Global Crossing's reply comments in this matter, shows a similar disparity between midsize price cap LEC productivity growth and that of larger carriers.

and lower X-Factor that creates an achievable glidepath for rates and does not force a Hobson's choice that makes the CALLS Plan impossible for midsize price cap carriers to elect despite its carrier and customer benefits.

ITTA believes that the record before the Commission shows a relatively narrow range of midsize price cap LEC X-factor differentials and would support the Commission in establishing a separate and lower X-factor applicable to these companies. For example, the Commission could establish this value by taking a weighted mean, based on relative numbers of access lines, of the differentials shown in the studies to date. In the alternative, and as an absolute minimum, ITTA concurs with both Broadwing and Global Crossing that the Commission should establish an X-Factor within the CALLS Plan, applicable exclusively to midsize price cap LECs, that is 1.0 to 1.5 percentage points lower than the X-Factor applicable to the CALLS members. This figure falls at the low end of the range offered in the economic studies before the Commission, and would represent a conservative course of Commission action.

Accordingly, ITTA urges the Commission to make these limited changes if it adopts the CALLS Plan. The ranks of the midsize price cap LECs can continue to expand, and many of them are likely to adopt the CALLS Plan, if the Commission adopts an X-Factor between 5.0 and 5.5 percent, and a target interstate switched access rate that reflects midsize carriers' actual traffic-sensitive costs.

V. Conclusion

For the foregoing reasons, ITTA supports adoption of the CALLS Plan, modified as described above. The CALLS Plan will bring much-needed regulatory stability and certainty to interstate telecommunications markets, and promises to reduce aggregate consumer bills, eliminate implicit universal service support, and align rates with costs. By including a higher target traffic-sensitive switched access rate and lower X-Factor applicable to midsize price cap LECs, the Commission will increase the likelihood that all price cap LECs will participate in the CALLS Plan, and encourage more midsize carriers to adopt price cap regulation.

Respectfully submitted:

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